Financial Regulations for improving financial inclusion

This document from the *Center for Global Development* focuses on the role of regulation in the process of financial inclusion. It highlights the major milestones achieved, thanks mainly to the digital revolution – which has allowed new financial services and channels to be developed –and the adoption of appropriate regulation in line with the characteristics and needs of each country (along with other factors). Furthermore, it suggests that inadequate regulation is one of the major obstacles to financial inclusion.

The object of the report is to analyse regulatory factors that impact the effectiveness of inclusive financial regulation and it recommends certain practises for designing this.

The report considers that public policies and regulations have to be flexible enough to ensure that, on the one hand, the financial system is efficient, and on the other, that it protects the consumer. Designing effective regulation, especially for digital finances, is a challenge.

Three commonly-used guiding principles for designing inclusive regulation are the starting point for the recommendations:

"The same regulation for the same functions", in other words, financial services with the same functions are treated the same, irrespective of the legal form of the service provider.
"Risk-based regulation", in other words, the rigidity of legal requirements depends on the risk that it intends to covered, both for individuals and for the stability and integrity of the financial system.
"Balance between ex-ante and ex-post regulation", in other words, there has to be a balance between setting out certain rules beforehand (*ex-ante*) and resorting to regulating a given problem or market failure after the fact (*ex-post*).

26 recommendations come out of these principles, which are divided into the following three categories:

Foster competition: A market open to competition promotes a variety of products and services, greater efficiency, reduced costs, etc., which facilitates financial inclusion. The object of policies that regulate competition is to allow and provide incentive for new players to come into the market.
Levelling the playing field in financial services, in other words, financial services with the same functions are regulated in the same way, provided that they represent a similar risk for consumers or for the financial system. A level playing field is essential to ensure that all providers compete under equal conditions.
"Know Your Customer" rules (KYC): are necessary to preserve the integrity of the financial system and in particular to fight money laundering and financing of terrorism. KYC standards are important for financial inclusion because when institutions know who their customers are, they can adapt the products and services they offer them to their characteristics and needs.

Finally, the report makes 5 other recommendations that concern new payment systems for paying small amounts, such as mobile money for instance.